

The National Collaborative for Postsecondary Education Policy

A Concept Paper

The Education Commission of the States
The National Center for Public Policy and Higher Education
The National Center for Higher Education Management Systems

INTRODUCTION

As the 21st century begins, Americans are experiencing a rapid shift from an industrial to a technological age. A secure future in the workplace now requires knowledge associated with education and training beyond high school. Students understand the importance of college: More than 90% of high school graduates now expect to complete at least some college, and more than 70% expect to receive a college degree. The role played by high schools in the mid-20th century — providing the fundamental level of education that people needed to participate fully in American social and economic life — is now being played by colleges and universities. The patterns of attendance and graduation that existed in high school during the 20th century are now unfolding in higher education. The new information-based economy — with its worldwide patterns of competition, manufacturing, and distribution — severely penalizes Americans who have only a high school education or less. The decline in the economic value of high school has substantially increased the economic advantage of college for individuals.¹ Public understanding of this reality is reflected in public opinion surveys, broader college aspirations and increased college attendance.

The imperative of education and training beyond high school for most Americans is coinciding with another trend — the growing number of young people moving into and graduating from the nation's high schools. Because of this "baby boomlet," enrollments of traditional college-age students are expected to increase by 2.6 million, or 16%, from 2000 to 2015. To correct patterns of under-enrollment by some ethnic groups, males or entire state populations, enrollments should grow even more. Former North Carolina Governor James B. Hunt has stated this problem clearly: "The need to develop the talents of our citizens has accelerated even faster than the expansion of college opportunity and enrollment."²

POSTSECONDARY EDUCATION IN THE 21ST CENTURY

For half of the last century, the public purposes of higher education in the United States and the goals of public and private colleges and universities substantially overlapped. This helped to create a system of higher education that, until recently, surpassed the rest of the world in the level of access and options provided to its citizens.

¹ Anthony P. Carnevale and Richard A. Fry, *The Economic and Demographic Roots of Education and Training* (Washington, D.C.: The National Association of Manufacturers, 2001), p. 3.

² National Center for Public Policy and Higher Education, *Measuring Up 2000: The State-by-State Report Card for Higher Education* (San Jose: 2000).

But changes in the past two decades are forcing — and should force — public leaders to rethink some fundamental assumptions about how to achieve the public purposes of higher education. Today, most states are struggling with budget uncertainties that are likely to be present for the next three to four years (even if the national economy recovers in 2003). About half the states have a large and growing youth population, which will require additional public investment in order to maintain educational opportunities. Many other states have historically low participation rates and will need additional public investment to increase the college-going rates of their residents. So to increase opportunity, states will need to increase access to postsecondary education. At the same time, many states have aging populations that will increase the rolls of Medicare and its associated expenditures. Also, the demands from all parts of our society for better security and improved public K–12 education are unlikely to subside. The economic reality that states face is that, even if the economy rebounds, resources for higher education will remain scarce. For higher education, the competition for state funding with other worthy social purposes will only increase.

The last 20 years has also brought about — with virtually no public debate — an entirely new system of finance for higher education. Nationally, student debt has overtaken public need-based grant aid as the primary form of student financial aid. Meanwhile, public colleges and universities have diversified their revenue bases, leading to questions about the relationship between higher education and the states, and implicitly, to questions about who pays — and who should pay — for higher education. Both the revenues of public colleges and universities (including state and local appropriations) and their expenditures have increased significantly faster than inflation. As a result, students and families — through tuition — are absorbing an increasing share of the costs of higher education. States have fallen into a damaging pattern of (1) freezing or rolling back tuition when the state economy is strong and family income is increasing, and (2) cutting higher education budgets and increasing tuition when the state economy is weak and family income is stagnating or dropping. When people most need to enroll in re-training and other educational programs beyond high school, they may be least able to pay the higher tuition charges.

As the consensus about who should pay for higher education has eroded, the new imperative for education and training beyond high school has become clear to most Americans. Public support for educational opportunity is strong and growing stronger,³ and public anxiety about access to and the affordability of educational opportunity is likely to drive state leaders into the debate. State leaders will probably not have the option to avoid these issues over the next decade.

The need to help states identify and implement effective public policies for higher education has never been more urgent. Public elementary and secondary education has dominated the policy debate in state governments since the mid 1980s. Postsecondary education will increasingly share this attention and will strain state capacities as enrollment grows, budget competition increases and the public demands access to affordable educational opportunities.

³ John Immerwahr, *Great Expectations: How the Public and Parents—White, African American and Hispanic—View Higher Education* (San Jose: Public Agenda and National Center for Public Policy and Higher Education, 2000).

The November 2002 elections will yield at least 25 new governors as well as changes in state legislatures. This significant change in state leadership makes starting the proposed project early in 2003 particularly important. We can work with states as governors and legislators develop positions about postsecondary education that will shape behavior for the rest of this decade.

The need for more effective postsecondary education policy is not only increasingly urgent; it also is being recognized in more states. A number of states anticipate surges of college-age population; others face changed demographics — particularly growing ethnic diversity — that bring new demands for access; and still others have become aware that economic development goes hand-in-hand with human capital development. Across the nation, states are beginning to look for new approaches to postsecondary education.

The problem nearly everyone faces is lack of capacity. State leaders may sense that their grades on the national report card are potentially a starting point for detailed policy analysis and improvement. They are turning for assistance to organizations like the partners in the proposed National Collaborative for Postsecondary Education Policy (National Collaborative). But no single organization has the capacity to help bring the right players to the table in a state, conduct data-driven policy analysis, make comparisons across states, formulate strategies for change and ensure accountability.

The steering committee of the Education Commission of the States (ECS), which has members from all member states, asked incoming president Ted Sanders to get the organization back into postsecondary education in a coherent and responsive way. It supports the approach proposed in this paper. There is substantial interest in the report card and, more importantly, in its human capital/social outcomes perspective. Discussions at the ECS national policy meeting and at the annual meeting of the State Higher Education Executive Officers in 2002 were well attended and positive. The National Center for Higher Education Management Systems (NCHEMS) and the National Center for Public Policy and Higher Education (NCPPE) are also working or already have worked in several states (Tennessee and Kentucky, for example) and are talking with others.

ECS compliments the work of NCHEMS and NCPPE. It can help states bring the right players to the table: governors, legislative and business leaders, educators and community representatives. This is not just a collaborative at the national level. It is a collaborative within the states: three national organizations with different strengths and state leaders who know the situation on the ground.

THE CONCEPT

We want to change the piecemeal nature of state postsecondary education policy efforts and develop a shared vision of how postsecondary education both serves individual students and contributes to a state's overall quality of life. Nationally, the intellectual depth and analytic rigor in higher education policy has diminished since the Carnegie Commission on Higher Education and the Carnegie Council for Policy Studies in Higher Education issued their influential reports under the leadership of Clark Kerr in the late 1960s and the 1970s. Presently, no single organization has the capacity to address this public agenda effectively, particularly at the state level. In an effort to invigorate the discourse and build more capacity to analyze and develop postsecondary education policy, three national organizations propose to create the National Collaborative for Postsecondary Education Policy.

The goals for the National Collaborative over the next three to five years are: (1) to provide a national clearinghouse on state higher education policy; (2) to conduct higher education policy analysis (for example, see Appendix II); (3) to collaborate with four to six states in policy development and implementation to improve the performance of higher education; and (4) to distill principles of good practice for wide dissemination to policymakers. The framework for this work is the biennial report card, *Measuring Up*, which evaluates state performance in six critical areas: preparation, participation, affordability, completion, benefits and learning. The sixth category of the report card, learning, will become increasingly important in subsequent issues of *Measuring Up* and in the work of the National Collaborative.

The six categories and their defining questions are:

- **Preparation:** To what extent is the young population in the state completing a high school education? Are high school students enrolling in the kinds of courses that prepare them for postsecondary education and training? Are high school students performing well in key academic areas?
- **Participation:** To what extent is the young population in the state (18 to 24 year olds) enrolling in postsecondary education or training? Does the state provide enough opportunities for working-age adults to enroll in education or training beyond high school?
- **Affordability:** What percentage of family income is needed to cover the costs of attending community colleges in the state? Of attending public four-year colleges and universities? Of attending private four-year colleges and universities? How much does the state invest in need-based financial aid or other strategies for affordability? Do students rely too heavily on debt to finance their education?
- **Completion:** Do students make progress toward and complete their certificates and degrees in a timely manner?
- **Benefits:** What educational, economic and civic benefits does the state receive as a result of having a highly educated population? For instance, what percentage of the adult population has a bachelor's degree and how much does this add to the state economy? How well do adults perform on assessments of high-level literacy?

- **Learning:** What does the state know about student learning as a result of education and training beyond high school?

The three founding organizations of the National Collaborative — ECS, NCPPHE and NCHEMS — have been selected because of their unique contributions and experience. (See Appendix I for brief organizational descriptions.) There are no organizations in the country situated better to reach appropriate policy and business constituents within the states, to offer independent policy analysis and to provide direct assistance to state leaders interested in improving higher education performance.

ECS, which routinely works with a cross-section of state leaders, is the only compact in the country that brings together such a diverse group of stakeholders at the state level. It recently has completed a two-year review to set its postsecondary education agenda, which will be organized around the report card and its human capital/social outcomes approach.

With its broad constituent base, ECS has the capacity to build a strong coalition of state policy and business leaders necessary to undertake reform. ECS has also developed its clearinghouse capacity and can create powerful, user-friendly web-based resources drawn from all three organizations and other sources to assist state leaders. The National Collaborative will be located at ECS.

NCPPHE is a fully independent organization that can continue to “keep the heat on” by analyzing state policy trends and speaking forthrightly about these issues. It has the capacity and funding to continue to develop and publish *Measuring Up* in 2002, 2004 and 2006. In addition, NCPPHE will continue its research into public opinion and other areas, and will release other policy publications. Two such publications include *Losing Ground* (a national status report on the affordability of higher education, published in May 2002) and a report on the cost-effectiveness of higher education, forthcoming in 2003. NCPPHE also brings to the table its expertise in higher education governance and finance and its experience in working directly with states within the performance framework established by *Measuring Up*.

NCHEMS is without equal nationally in the level of experience it has amassed in working directly with states on higher education policy issues and in identifying realistic and workable solutions. NCHEMS began partnering with NCPPHE to complete an external review of *Measuring Up* in 1999. Since that time, NCHEMS has assisted NCPPHE in: (1) systematically testing the data in *Measuring Up*; (2) developing a template for states to use to better understand performance within the state;⁴ (3) assisting states in rethinking policies to improve performance; and (4) partnering with NCPPHE in its effort to address the “Incomplete” in learning (states were given an Incomplete for learning in *Measuring Up 2000* because all states lack information on the educational performance of college students that would permit systematic state or national comparisons). In addition, NCHEMS has been identified and funded through grants from foundations as the national organization to improve and maintain critical state databases for future policy use.

⁴ Dennis Jones and Karen Paulson, *Some Next Steps for States: A Follow-Up to Measuring Up 2000* (San Jose: National Center for Public Policy and Higher Education, 2001).

These databases, collectively called the National Information Center for Higher Education Policymaking and Analysis, will be major tools for our work in states, providing data that are both specific to each state and comparative. ECS will organize its clearinghouse of postsecondary education information to be fully compatible with the NCHEMS' databases. At the root of both, of course, are the six areas assigned grades by the report card.

Rarely have national (or even state) organizations planned so carefully to align their work with one another. We are modeling the behavior we think is essential to postsecondary education improvement in the states, behavior that will transform good data into knowledge and sound policy.

ROLES OF THE ORGANIZING PARTNERS

The National Collaborative builds on the unique strengths of each of its partners. ECS will have the primary role of convening leadership in the states and disseminating policy options and other good practices (through the higher education clearinghouse, in national meetings and working directly in the states). NCHEMS will assume primary responsibility for the policy audit and analytical work in the states — developing relevant state-level data and information for policy leaders. NCPPHE will assume primary responsibility for continuing editions of *Measuring Up* and other state-by-state policy analysis. It will assist ECS and NCHEMS in developing a public agenda in each of the states.

Although each partner will have well-defined tasks, each one also is committed to the overall success of the project. We recognize that the National Collaborative will succeed only to the degree that each partner assists the others in performing their critical roles.

THE WORK OF THE NATIONAL COLLABORATIVE

Working together, the three organizations can build upon their existing strengths to create greater analytic and policy capacity in the states and among themselves. The collaboration of the three partners and their involvement with states seeking to improve higher education performance creates the potential to establish a powerful public policy agenda and significantly influence public policymaking for many years.

The work of the National Collaborative will have three distinct components. Phase I, capacity building, involves developing the structure to guide the collaborative through its three-year project, both internally and externally. This includes evaluating the readiness and political commitment of states to determine which four to six states will participate in this project. In phase II, the National Collaborative will work directly with four to six states to independently audit state higher education policies, build information infrastructure and identify policies to improve state performance. The performance areas will be related to the categories in *Measuring Up*, but the state policy needs, goals and other areas of analysis will be unique to each state. Phase III, the dissemination of information learned, will be ongoing throughout the project. This component will ensure that lessons from the states are shared broadly, discussed at meetings and available through policy reports, the Internet and other means.

Phase I: Capacity Building

In Phase I of the project:

- A National Advisory Board will be established to provide ongoing advice on the work of the collaborative. It will meet twice per year.
- A small "working group," made up of the chief executive officers of the three partners in the collaborative and the project director will meet quarterly to assist in the ongoing planning and implementation of collaborative activities.
- An information clearinghouse, specific to National Collaborative work, will be developed. Its structure will be compatible with that of the databases being developed by NCHEMS.
- Four to six states will be selected for in-depth involvement in the project. Among the criteria for selection will be:
 - Election results in November 2002 and expressions of commitment by newly elected (at least 25) or sitting governors.
 - Formation of a Leadership Group comprising senior representatives of the executive and legislative branches of state government; two- and four-year, public and private institutions of higher education; K-12 education; and business and industry.
 - Demonstration of readiness: state information systems that can support data-driven policy analysis, for example, and leaders who already have established productive working relationships (among educational sectors, for example).
 - Identification of a liaison agency to be the point of contact in the state and to provide logistical support throughout the duration of the project.
 - Willingness to make a financial commitment to the project in an amount agreed to by the state and the National Collaborative.
 - Ability to contribute to a national understanding of issues and workable approaches to them. This is essential to build capacity at ECS, NCHEMS and NCPPHE. More important, it is essential for the states, particularly those not in the first round of work. Our work with the first four to six states should help everyone learn more about effective change and improvement.

PHASE II: Working with Selected States

Phase II encompasses four stages of involvement with each of the six selected states, and is aimed at identifying and solidifying support for public policies that can improve the performance of higher education in the state.

A. Project Initiation

As the initial activity in each state, a meeting of the state's Leadership Group will be conducted. This group will be convened by a prominent individual(s) within the state with the significant involvement of ECS and will comprise (as a minimum):

- Senior representatives of the executive and legislative branches of state government.
- Business and industry.
- K-12 education.
- The media.
- The higher education (system) leadership of the state.
- Two- and four-year, public and private institutions of higher education.

The purposes of this meeting will be to discuss the project with key participants, explain the process and benefits, elicit advice about protocols that must be observed if the project is to be successful in the state and solicit individual, as well as group, participation at key steps along the way. This meeting of the Leadership Group, as well as all subsequent meetings, will be attended by representatives of all three organizations that constitute the Collaborative.

B. Data Analysis to Advance the Formation of a Public Agenda

Using the performance categories of *Measuring Up* as the organizing framework, NCHEMS staff will compile and analyze state-specific information to more precisely identify statewide, regional and sub-population performance gaps that could influence policy formulation. This activity involves:

- Compiling data that are available — either in print or on the Web.
- Visiting higher education and other state agencies (workforce and economic development, K-12 education, etc.) to acquire additional data. These visits also provide an opportunity to reinforce the message about the purposes of the project and its benefits.
- Analyzing the information and organizing it to tell a story about the condition of the state — its economy and quality of life and its comparative advantages and disadvantages.

This information will be presented at the second meeting of the Leadership Group. It will be the basis of a discussion intended to elicit a beginning consensus about the public agenda for higher education in the state — the short list of state priorities requiring a predominant contribution from the state's higher education community. Out of this meeting should emerge:

- The major components of a public agenda.
- Insights into additional work needed to shed more light on the issues and begin the process of building a broader consensus around the agenda.

C. Policy and Capacity Audits

With the outline of a public agenda in hand, NCHEMS staff will work with individual members of the Leadership Team and others within the state to:

1. Conduct a policy audit. This step serves to gain detailed information about policies and procedures that provide either incentives or disincentives for successful pursuit of the public agenda. This audit involves:
 - Reviewing existing state policies, especially those dealing with finance and resource allocation, accountability, governance and the allocation of decision authority.
 - Holding discussions with institutional and political leaders and others whose actions will be key to implementation. The purposes of these meetings are twofold: first, to gain information about the "way things work" in the state (and the incentives and disincentives for desired behaviors endemic in these traditions) and second, to continue building consensus about the public agenda among individuals who will be key to successful implementation and change.

The policy audit will highlight those policies and procedures that are serving as barriers to achieving the stated agenda, indicating a need to change or eliminate these policies. The audit will also investigate policy alignment to assess the extent to which policies in one arena (e.g., finance) are consistent with and reinforce the intended good effects of policies in other areas (e.g., accountability).

2. Conduct a capacity audit. This step serves to assess the extent to which the state has higher education capacity to deliver services: (a) in sufficient quantity; (b) of the needed type; (c) to the important target audiences; and (d) in the necessary geographic areas of the state. The audit includes:
 - Further data analysis about institutional capacity and the students who are and are not being served by different institutional sectors.
 - Discussions with education leaders (many coincident with those conducted as part of the policy audit).

NCHEMS staff will summarize the results of these audits drawing attention to areas where changes in either policy or process will be required if the public agenda is to be pursued successfully. These results will be shared with other members of the Collaborative for review and comment. They will then be presented to a meeting of the Leadership Group. The purposes are to ensure that there are no errors of fact, to build an understanding of the need for change and to reinforce once again the importance of the agenda to the future of the state and build momentum for the change agenda.

D. Formulating Policy

Working together, representatives of the three collaborative member organizations will develop a set of policy options for the state. These options will reflect the public agenda being pursued and the results of the audits conducted in the prior stage. They also will consider the political culture of the state. These options will deal with the full array of policy levers, as appropriate — structure, governance, finance, regulation, accountability and oversight. Much more detail about these policy levers and their alignment is presented in *Some Next Steps for States*, which is appended to this proposal.

The options will be discussed at the final (project-sponsored) meeting of the state's Leadership Group. At this meeting the objectives will be to:

- Identify the policy initiatives to be pursued.
- Assign responsibility for key elements of the work agenda.
- Gain consensus about ongoing activities to be conducted beyond the life of the project.

By the completion of this stage, the state will have a practical working plan to achieve the objectives set out in the public agenda.

E. Follow-up Activities

Experience indicates that after this point in the project is reached, there will be a sporadic need for assistance — presentations to legislative committees and other groups, review of specific legislative proposals, etc. The members of the collaborative stand ready to provide these continuing services providing that necessary costs are borne by the states.

PHASE III: Disseminating Information to Policymakers

Throughout the life of the project, the National Collaborative — working especially through the capacity of ECS to reach its own members and the members of other national organizations — will deliver information about good practices to state-level policymakers. Dissemination activities will include:

1. Operating the information clearinghouse and using it to share “good practice” and other information within and to the states.
2. Summarizing research findings and presenting them to education and political leaders in meaningful and user-friendly ways.
3. Identifying sets of policy options that work particularly well in pursuit of different elements of a public agenda. For example, if improving participation is the objective, then the following elements of a comprehensive strategy might be considered.

- **Use the bully pulpit.** The objective is the same as previously, but it may be much more effective if employers rather than political leaders send the message that postsecondary education is important — especially if they back up their rhetoric with action (requiring postsecondary level skills as a condition of employment and/or promotion, providing for professional development as a normal part of work assignments, etc.).
 - **Structure.** The reality is that most students will attend college close to home. This is especially true for working adults, a group that will necessarily and inevitably become a larger part of the postsecondary education market. This situation calls for an education system that encourages providing postsecondary education opportunities where the student is rather than making students come to the education opportunities. This approach can be accomplished in several ways — electronically, through provision of baccalaureate programs on community college campuses, selectively subsidizing access to programs in geographically-accessible private institutions, etc.
 - **Finance.** The notions of participation (access) and affordability are closely and frequently linked. As a result, fiscal elements associated with improved participation often focus on various student financial aid mechanisms such as:
 - Need-based aid that removes economic barriers to participation by low-income students.
 - Making part-time students eligible for student financial aid.
- But there are other less frequently used elements that should be used more often:
- Creating incentives for institutions to collaborate in delivering instruction at each other's sites.
 - Financing the installation of a telecommunications network in the state.
 - Funding learning centers whose students can gain access to student services from multiple institutions.
- **Regulation.** Regulation tends to be a blunt instrument that should be used selectively. There are occasions, however, when it can be used to good effect in improving and removing barriers to participation. For example:
 - Aiding economic access by capping tuition and fees charged for distance delivered courses (at on-campus levels or below, for instance).
 - Requiring state (or public) agencies that receive state funds to promote/attain higher levels of educational attainment among their workforces (especially those with lower average educational attainments).
 - **Accountability.** Here, the objective is to ensure availability of information in order to be able to determine that:
 - Participation of recent high school graduates is becoming less disparate among individuals of different economic circumstances, of different demographic characteristics and who live in different parts of the state.
 - Participation by part-time adults is increasing and becoming more equalized across the state.

It is important that information be placed at the fingertips of policymakers and their staffs by making it available on the Web. It also is important to present alternatives for consideration through state and regional meetings and video conferences. The collaborative, with ECS in the lead, will provide these services. Information also will be updated to reflect the experiences of the four to six states participating in the project.

THE ECS AGENDA

In order for the National Collaborative to succeed, it must be located within an organization committed to its goals. Over the past few months, ECS has developed an agenda designed to track student progress at critical junctures of the education continuum. By focusing on student progress at each of these junctures, ECS highlights and examines key areas of public policy that can improve performance, such as through accountability, finance and governance. *Measuring Up* provides a template that specifically addresses one of the junctures that ECS has identified as a priority: the transition of students from K-12 schools to education and training beyond high school.

ECS' commitment to this project is unequivocal. It already has committed one staff position to the project and has contracted with a project director to coordinate up-front planning on behalf of the collaborative. This will allow us to start immediately if the project is funded. ECS will organize the clearinghouse for which it is responsible around the work being done by NCHEMS to create national state-specific databases.

The project director also has assumed responsibility for helping to develop a coherent postsecondary education agenda for ECS centered on the key goal of the proposed project: effective policy analysis and improvement focused on human capital development and social outcomes.

ECS has developed the leadership among its constituents for this agenda. In a remarkable string of coordinated initiatives by recent ECS chairs, past chair New Hampshire Governor Jeanne Shaheen focused on early learning and Nevada Governor Kenny Guinn is focusing on literacy by age 8. Now, 2002-04 chair Georgia Governor Roy Barnes will focus on "closing the achievement gap," defined by combining school readiness by age 6, literacy by age 8 and algebra by age 13. (For the first time in ECS' history, the chairman's term is extended to two years). To complete this comprehensive agenda, we hope to enlist ECS' 2004-06 chairman in the drive to make grade 14 the minimum expected end point for all students in America. As Hilary Pennington, chief executive officer at Jobs for the Future, says, "The task is to create multiple pathways to and through the second year of college, not to reform the 'one-size-fits-all' comprehensive high school."

In all of this, we want to help people acquire the ability to lead productive, engaged and satisfying lives.

STAFFING, FUNDING AND GOVERNANCE

The partners in the National Collaborative for Higher Education Policy seek a grant for a three-year period. The Collaborative will be launched late in the fall of 2002. This timing allows it to build on the interest created by the release of *Measuring Up 2002* earlier in the fall. Once funding is secured, the partner organizations will: (1) identify states that will participate in the project; (2) begin policy analysis; and (3) create a clearinghouse and information services.

The National Collaborative will be advised by a National Advisory Board. The Board will meet twice per year and provide feedback, guidance and assistance to the Collaborative. Members of the board will be drawn from national and regional policy organizations. In addition, a working group of the three organizational partners will meet quarterly to plan and implement Collaborative activities.

ECS has recruited a director for the National Collaborative and has assigned a professional staff person who will, among other responsibilities, create the postsecondary education clearinghouse. Both these staff members will work with each of the six participating states.

Appendix I

The Education Commission of the States (ECS). ECS, a nationwide, nonprofit organization, is recognized for its ability to facilitate the exchange of information, experience, ideas and innovations for the improvement of education through public policy. ECS' constituents include governors, state legislators, chief state school officers, state higher education executive officers, members of school boards and boards of regents, business leaders and other education policy leaders. ECS' status as a bipartisan organization, involving key leaders from all levels of the education system, creates unique opportunities to build partnerships, share information and promote the development of policy based on the best available research and strategies. ECS, with a staff of approximately 70, maintains its headquarters in Denver, Colorado. (For further information about current ECS activities, please visit www.ecs.org.)

The National Center for Public Policy and Higher Education (NCPPE). The National Center for Public Policy and Higher Education promotes public policies that enhance Americans' opportunities to pursue and achieve high-quality education and training beyond high school. As an independent, nonprofit, nonpartisan organization, the NCPPE prepares action-oriented analyses of pressing policy issues facing the states and the nation regarding opportunity and achievement in higher education — including two- and four-year, public and private, for-profit and nonprofit institutions. NCPPE communicates performance results and key findings to the public, to civic, business and higher education leaders and to state and federal leaders who are poised to improve higher education policy. Established in 1998, NCPPE is not affiliated with any institution of higher education, with any political party, or with any government agency. It receives continuing, core financial support from a consortium of national foundations that includes The Pew Charitable Trusts, The Atlantic Philanthropies and The Ford Foundation.

The National Center for Higher Education Management Systems (NCHEMS). Through its 30 years of service to higher education, NCHEMS has been committed to bridging the gap between research and practice by placing the latest management concepts and tools in the hands of college and university administrators. NCHEMS is a private nonprofit organization, preeminent as a national center both conducting and translating research to meet the needs of practicing administrators. NCHEMS' mission is to help institutions and agencies of higher education improve their management capability. NCHEMS delivers research-based expertise, practical experience, information, strategies and tools that permit an educational institution to improve both its efficiency and effectiveness. These resources are provided through specific projects, information services that reside in NCHEMS' extensive database and publications that disseminate the latest concepts, principles and strategies to a broad audience of researchers and administrators.

Appendix II

The Affordability Example

The *Measuring Up 2000* template consists of six categories of state performance for higher education: preparation, participation, affordability, completion, benefits and learning. As policymakers define the public purposes of higher education, we believe that each of these performance areas is important and warrants more detailed policy analysis and explanation.

One example of this kind of work can be found in affordability, one of the six categories. In May 2002, the National Center for Public Policy and Higher Education released *Losing Ground: A National Status Report on the Affordability of American Higher Education*. This report documents the declining affordability of higher education for American families, through national findings as well as state-by-state information. The report highlights the most recent public opinion research on the affordability of higher education, describes state and federal programs that benefit the middle class and offers profiles of current college students as they struggle to make ends meet while attending various types of colleges and universities. Perhaps most importantly, however, *Losing Ground* identifies those public policies that the best performing states in the affordability category in *Measuring Up 2000* used to achieve a high score.

Losing Ground is an example of the kind of policy analysis that would be undertaken by the National Collaborative for Higher Education Policy. It provides detailed analysis of aspects of the *Measuring Up* state policy template. It offers practical ways to conceptualize, measure and compare state performance in higher education. And it examines specific policies that improve or restrict state performance.

The information and data gathered to create these kinds of policy analysis will become part of the National Collaborative's clearinghouse on higher education policy. The identification of promising practices will be used to inform policies and improve performance in the six participating states. And the findings and results will be shared with policy leaders nationwide.

Appendix III

Some Next Steps for States: A Follow-up to Measuring Up 2000

By Dennis P. Jones and Karen Paulson

Financing in Sync: Aligning Fiscal Policy with State Objectives

Dennis Jones

While the priorities and methods vary from state to state, state leaders hold common aims for the citizens of their states. They seek a high quality of life for these citizens. They want them to be safe in their homes and on the streets; they want them to breathe clean air and drink pure water; they want them to have ready access to affordable health care. They also seek economic stability and self-sufficiency for the citizens of the state; they want them to have the means to enjoy the benefits of a middle-class lifestyle.

The achievement of these desired ends is increasingly dependent on the education levels of the population. In order to reach the objectives of economic and societal well-being, more and more citizens must have at least some level of education beyond high school. Certainly, the kinds of jobs associated with advanced earning power require levels of knowledge and skill associated with postsecondary education. But the need for advanced education extends beyond the realm of economics. It also extends to the requirements of personal and civic life. Day-to-day life is becoming increasingly complicated—note the sophistication required to make informed selections among the available health care options or telecommunications providers. Similarly, a functioning democracy requires a citizenry able to make informed, personal decisions about such complicated topics as global warming, international trade, and energy production/conservation—and about selection of elected officials who must deal with these issues as matters of national policy. All

these topics require a citizenry educated well beyond the levels of the populace of even a generation ago.

These conditions create situations in which states have a substantial interest in achieving:

- ▲ High rates of high school completion among students who have taken an academically rigorous curriculum.
- ▲ High levels of college participation among both recent high school graduates and adult learners.
- ▲ High rates of college degree completion.
- ▲ An economy that employs a high proportion of college graduates.

In pursuit of these objectives, states can (and do) employ a variety of the policy tools that are available to them. They create systems of higher education institutions and put in place governance structures and mechanisms designed to ensure that these institutions attend to those aspects of the public agenda which they can substantially influence. They establish performance goals and accountability mechanisms intended to focus attention on—and gain the achievement of—these objectives. At the moment, this policy tool is being applied primarily at the elementary and secondary levels; but momentum is gaining at the postsecondary level as well. They establish regulatory devices intended to ensure particular institutional behaviors of a sort believed to affect the ultimate attainment of these desired ends.

Finally, and most importantly, they use the power of the purse to influence institutions, students and employers to behave in ways consistent with the broader public purposes. Funding—with regard to both the levels and the methods by which resources are distributed—is the dominant policy tool used to affect higher education institutions and the outcomes they produce.

Financing policy has risen to this preeminent status for several reasons. First, it sends the strongest signals. Regulations can be bent (or ignored) and accountability requirements advantageously interpreted; their implementation is largely at institutional discretion. But the money flows get everyone's attention, and they are very much under the control of the providers, not the recipients. Secondly, finance decisions are revisited each time the state legislature meets, making them (potentially) a very flexible tool. Further, in many states there are structural reasons for this prominence. The only legislative committees that consistently deal with higher education issues in some states are the money committees. In some states, there are no substantive committees that regularly deal with governance, regulatory, or accountability devices as they specifically affect the nature and performance of the higher education enterprise. In some other states, the education committees handle both elementary/secondary and postsecondary issues; in these settings, K-12 education typically receives most if not all the attention. Finally, financing is the one policy that can be viewed as more carrot than stick; it can provide incentives in an environment in which the other tools are viewed as constraining and negative.

While financing policy is potentially the most potent of the policy tools, it is seldom wielded

effectively. It tends to be applied with a focus on means (institutional well-being) without concomitant attention to the ends to be achieved. And it tends to be focused on institutions as recipients of funds to the exclusion of other beneficiaries (especially students) who could be more instrumental in achieving desired consequences. Or the policies are so diffuse that the cumulative affects are negated. Whether for lack of purposive design or absence of alignment of the components, states seldom gain the level of impact through use of finance policy that they might. The purposes of this paper are to:

- ▶ Identify the distinct elements of financing policy.
- ▶ Describe alternative forms of these elements.
- ▶ Illustrate the alignment of these policies in the context of alternative state priorities.

The intent is to provide guidance to the formulation of policy that encourages educational outcomes consistent with economic benefits and an enhanced quality of life for the citizens of a state.

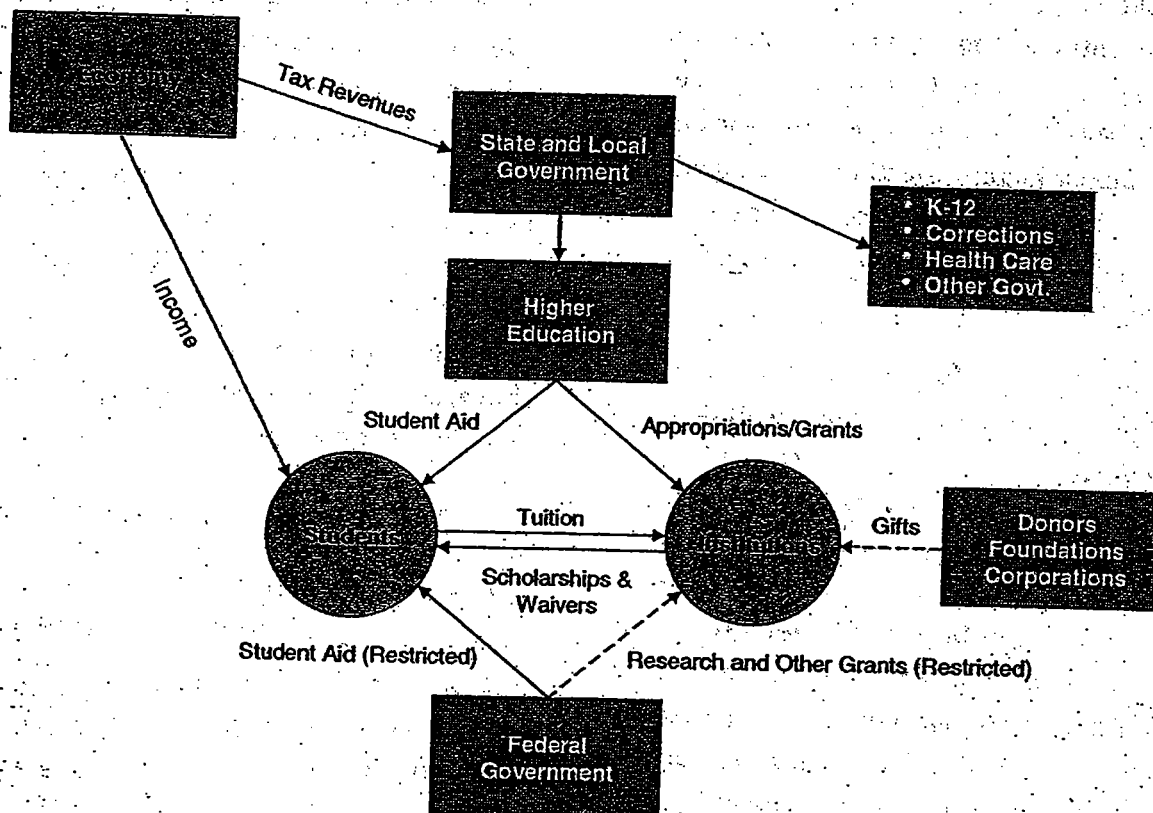
The Elements of Financing Policy

Figure 1 describes the various entities that have a role in the financing of higher education and the nature of the primary relationships among them. This figure calls attention to the fact that most public institutions get the vast majority of their unrestricted operating revenues from only two sources—the state and students. The dotted-line connections between institutions and the federal government and private sources (individual donors, foundations, and corporations) acknowledge their roles as

important funders, while recognizing that they typically are *not* major providers of resources for the general operating support of institutions. Funds from these sources most often are provided to institutions with the stipulation that they be used only in ways specified by the

donor—the funds are restricted. The exception is private gift money provided to institutions for (restricted) use in providing financial aid to students. These funds are included in the diagram as institutional aid to students.

Figure 1. Flow of Funds



With this bit of explanation, it becomes clear that state-level financing policy as it relates to funding higher education must focus on the following components:

1. Appropriations made directly to institutions for support of general operations. Such appropriations may be

made in two categories: base institutional funding for creation and maintenance of the educational capacity of the institution; or special purpose funding intended to promote utilization of this capacity in ways designed to achieve state priorities (performance or incentive funds). Appropriations for capital additions or renewals typically are made

separately and are not included as part of the discussion in this paper.

2. **Tuition and fee policy.** Establishing "sticker prices" for different categories of students as well as policies regarding a variety of fees.
3. **State student financial aid policy.** State policies regarding funds made available to students meeting certain criteria to reduce the price of college attendance to those students. These criteria may be based on economic factors affecting the student, need-based aid and other factors (typically excellence in academics or other pursuits), or merit-based aid.
4. **Institutional student financial aid policy.** Institutional support to students for purposes of reducing price of attendance. This support may take the form of either direct payments to students (use of "real dollars" in the form of scholarships in which case the funds become expenditures by the institution) or of waivers of tuition or fees (in which case no "real money" changes hands and the institutions realize less net tuition income). As with state and student financial aid, allocations can be based on either need or merit, or a combination of the two.

In addition to the four areas over which states have direct control or strong influence, the importance of federal student financial aid policy must be recognized. While the states have little control over these policies, federal programs are so large that states must consider their provisions in order to make wise choices about the design of their own programs. By taking advantage of the federal programs (specifically

the Pell need-based aid program), states can leverage their own programs. By ignoring the federal programs in the process of designing their own, states run a very high risk of reducing the cost-effectiveness of whatever programs they establish.

While the prescription is straightforward—formulate policy in the four areas (within the context of federal policy) in concert rather than independently—it is seldom followed. These policies are typically made independently. On occasion, appropriations and tuition decisions are made simultaneously, or tuition and student aid decisions. But very rarely are all these (appropriations, tuition, and student aid) considered as a package. And in most states, institutional financial aid is treated as something above, and separate from, those decisions more directly under the state's purview.

The reasons for this lack of congruence are quite simple. First, policy decisions in these areas tend to be made by different actors. State governments make the decisions about appropriations to institutions and to state student aid programs. Decisions about tuition levels are frequently made by institutional boards, although these decisions are reserved for the legislature in some states. Decisions about institutional aid are most frequently left to the institutions—although some states mandate the level and nature of fee waivers. Even when the state is involved in all four policies, integration of decisions is rare. Each policy area is considered separately (especially the student aid components), sometimes by different committees, and almost always at different times. And sequencing is important; the order of the decisions often affects the nature of the decisions.¹

More importantly, the actors often have different objectives behind the decisions they are making. State decision makers are trying to control expenditures while improving broad access and achieving one or more of the priority objectives noted earlier. Institutions often have the objectives of maximizing revenues and achieving higher status among their institutional peers.

Different objectives and different roles in the decision processes often lead to decisions that have counterproductive results. As examples:

- ▶ In an effort to constrain expenses, states reduce student aid funding as well as institutional support at a time when institutions are rapidly raising tuitions in order to maintain revenue streams.
- ▶ Student financial aid is administered as fee waivers, and as a consequence makes the recipients ineligible for federal tax credits.
- ▶ States fail to intentionally integrate federal Pell grants into the state need formula.
- ▶ The design of many state merit-based student aid programs is such that they reduce the price of attendance to a set of students who would enroll in (and pay for) college anyway and often do not contribute to the broader agenda the states are pursuing (i.e. they do not yield improved participation, retention, or graduation rates or the employ students in the state after they graduate).
- ▶ Tuition levels are held well below what most students could afford and, in this process, institutions are deprived of the resources they need to provide students with a high-quality education.

- ▶ Absent good tuition policy, changes in tuition tend to be countercyclical with tuition increasing when students can least afford it and decreasing when they can most afford it. This has the potential of leading to political interference—pressure to hold tuition down in both good times and bad because there is no publicly understood rationale for not doing so.

- ▶ Conversely, participation and retention rates can be negatively affected when the price exceeds the ability (or willingness) of students to pay the bills.

The net effect when funding policies are not aligned and get out of balance is that one or more of the major participants in the process are put at a serious disadvantage: taxpayers pay more than their fair share; students find higher education becoming unaffordable and opt out (to their long-run detriment); or institutions fail to acquire the resources needed to adequately fulfill their missions. The bottom line is that the funds that are spent on higher education do not yield the results that they might if financing policy were more purposive and more integrated.

Effective financing policy should simultaneously meet several criteria:

- ▶ It should be reinforcing of and consistent with stated priorities (for instance, better high school graduation rates, improved college preparation and participation, enhanced retention and graduation rates, and more "educational capital" in the state's population). In states where the objectives are not clear, institutions have the luxury of establishing their own priorities, the sum of which are not necessarily in line with state needs.

▶ The institutional capacity necessary to meet the avowed priorities must be created and sustained. Policies that make it economically possible for students to attend college are of little use if the institutions in the state do not have the capacity to accommodate them.

▶ The contributions required must be within the means of those who must foot the bill. The combination of tuition and student financial aid policies must be such that price of attendance is kept affordable for all students. Simultaneously, the level of state support to higher education must be within the capacity of the state to raise taxes from various kinds of taxpayers.

▶ All parties in the equation must feel that they are being treated fairly and are getting (and giving) their fair share.

▶ The mechanisms must be transparent. The funding flows among the entities must be discernible so that decisions made by the different parties can be mutually reinforcing.

Achieving financing policy that meets all these criteria is by no means easy, but it is not impossible either. In the following sections, some basic principles are provided.

Factors to be Considered

The primary actors—the state, students, and institutions—in the financing policy formulation and implementation processes will judge the results in different ways, according to their own priorities. While it is risky to presume others' motives, the following likely are close to the mark.

States. From the perspective of states, financing policies have to:

▶ Result in maintenance of a system of educational institutions that have the capacity to accommodate demand and yield the desired educational outcomes.

▶ Promote explicitly the achievement of specified outcomes (these were listed in a prior section).

▶ Be affordable. Taxes and their allocation must reflect the tax capacity of the state and the priorities of the citizens. The realities of tax capacity and tax effort—combined with a realistic view of state priorities—may lead to conclusions that more tax revenues, not fewer, are in order.

▶ Be easily understood and defensible.

States have two direct tools available to them—direct appropriations to support institutional operations and allocations to students in the form of financial aid. The real trick is to balance these two and to design the specifics of each in ways that yield the most effective results.

In addition to direct decisions, states can influence, if not outright control, institutional decisions about tuition levels and the level and nature of institutional financial aid.

Students. Students judge finance policy according to:

▶ Affordability. Is net price (price of attendance less student aid from all sources) reasonable relative to their personal or family income? The important point here is that net price has to be viewed in terms of students' ability to pay. Wealthier students can afford

more than poor students, and tuition and financial aid policies should be tailored accordingly.

- ▲ **Value.** Are they buying access to something worth the price? A low price is no bargain if it buys access to a less than adequate education.

Institutions. The criteria from the perspective of institutions are quite different from those of the resource providers. They typically seek:

- ▲ **Adequacy of funding.** They want to be assured that the revenues available—primarily from students and the state—will be sufficient to allow them to fulfill their missions at high levels of quality. And because there are no upper bounds on aspirations for quality, it is difficult to achieve funding levels admitted to be adequate.
- ▲ **Equity of funding.** Are all institutions being treated fairly—not equally, but the same—relative to their different needs? If there are too few resources to meet all requirements, is the shortfall spread fairly among all?
- ▲ **Stability of funding.** Does the funding mechanisms yield results that are fairly predictable from year to year and that are free from large variations (especially on the down side)?

Since the objective is to create coherent state policy about the financing of higher education, it is useful to adopt the state perspective and investigate the basic elements of financing policy within the context of their decision-making domain.

The State Perspective

States allocate resources to higher education for essentially two purposes. First, they view higher education as being in the “general” public interest and seek to create and maintain a system of higher education that can respond to the demands of the state’s citizens. This focus on building capacity has been, and continues to be, the dominant focus of state interest. It largely explains the institution-centric nature of most state higher education policy, finances and otherwise. For the most part, the creation and sustenance of a public system of higher education has been considered an end in its own right. More recently, some states have come to see higher education as a critical means to important state goals (of the kinds indicated earlier in the paper). In this context, states provide resources to higher education in amounts and ways intended to promote *utilization* of the created capacity in pursuit of specified state priorities. In sum, states fund higher education to *build core capacity* (general purpose funding) and *utilize capacity to achieve stated goals* (special purpose funding).

In pursuit of these objectives, states can focus their policy attention on either institutions (the likely choice) or students or both. This combination of policy objectives and policy focus can be described by the simple matrix presented in Figure 2.

Figure 2. State Financing of Higher Education: The Policy Options

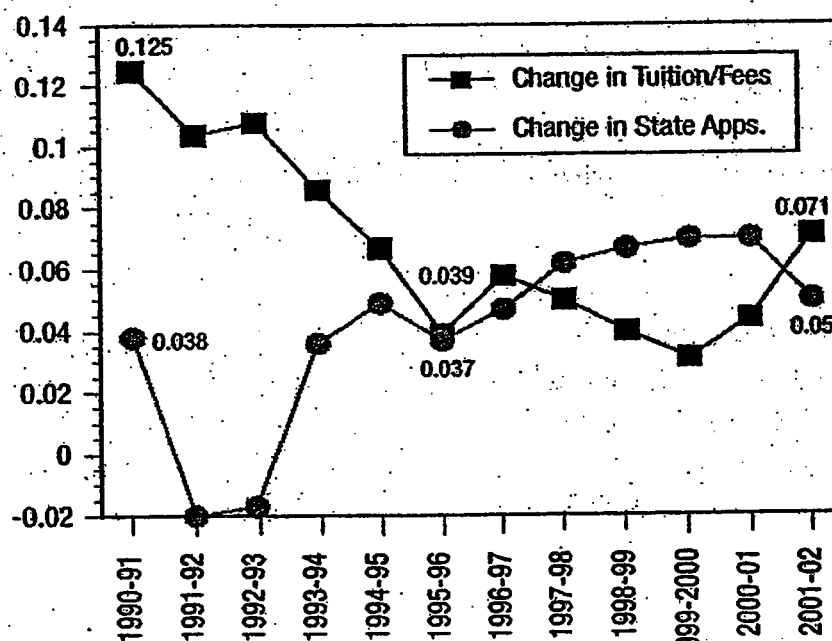
Policy Objectives	Policy Focus	
	Institutions	Students
Capacity Building	<ul style="list-style-type: none"> - Base Plus - Formulas 	Tuition and Aid Policy Focused on Revenue Generation
Capacity Utilization/ The Public Agenda	Performance Funding	Tuition and Aid Policy Focused on Attainment of Specified Outcomes <ul style="list-style-type: none"> - Need-Based - Merit-Based

As a way into the discussion, it is useful to view funding for capacity building separate from that for capacity utilization. In each case, the approaches to financing and the incentives associated with each are briefly described.

Funding for Capacity Building. As "owner-operators" of the state's public system of higher education, the states have considerable interest in ensuring an adequate level of funding for these institutions. As reflected in Figure 1,

funding for institutions comes from the state through appropriations for general institutional support and from students through tuition. As a general rule, the higher the level of state support, the lower the amount of tuition revenue and vice versa. This relationship at the national level is revealed by the data in Figure 3, which is drawn from a recently released Institute for Higher Education Policy report, "Accounting for State Student Aid: How State Policy and Student Aid Connect."²

Figure 3. Change in Resident Undergraduate Student Charges and State Appropriations, Public Colleges and Universities (1990-1991 to 2001-2002)



Source: AASCU/NASULGC 2001

The complete equation (again, as reflected in Figure 1) includes funding for student aid that serves to affect the price of attendance, recognizing that student aid comes from the federal government and the institutions themselves as well as from the state. The balancing act that states engage in requires them to ensure adequate funding for institutions while limiting taxpayer costs, insofar as is possible, and creating financial aid mechanisms that ensure that college attendance remains affordable for all citizens of the state. The second element is especially tricky, in that it requires consideration of federal and institutional student aid programs as well.

The question facing states is not just *how much* money to allocate to institutional support and student financial aid but also *how* that money flows—what are the decision rules that govern its distribution? These decision rules are critical, not just because of their effect on the bottom lines to all the parties at interest but because of the incentives for behavior buried in these allocation mechanisms. These incentives (or disincentives) apply to students as well as to institutions.

By far, the majority of funds that flow from states to higher education take the form of state appropriations to institutions (the upper left-hand box in Figure 2). While the specific mechanisms through which these funds are allocated are as numerous as the states themselves, at root they are of two general forms. First is the base-plus method, in which the prior year's funding is taken as the starting point and adjustments are made to reflect changes in cost-of-living and in demand levels, especially numbers of students served. This method is fundamentally a recipe for maintaining the status quo. Any incentives for changed

behavior depend on the mechanisms by which "new money" is allocated. Since enrollment increases are the primary rationale for base funding enhancements (except for cost-of-living adjustments), there can be modest incentives for improving participation and retention rates. However, unless funding for growth is both predictable and reasonably generous, institutions may well eschew growth for a comfortable status quo. As a corollary, for there to be *any* incentives in base-plus approaches, there has to be some "plus" in the equation.

The generic alternative is a formula approach to the allocation of state resources to institutions.

The general form is:

$$\begin{array}{rclcl}
 \text{units of base factor 1} & \times & \$/\text{unit of base factor 1} & + & \\
 \text{units of base factor 2} & \times & \$/\text{unit of base factor 2} & + & \\
 \text{units of base factor } n & \times & \$/\text{unit of base factor } n & = & \text{TOTAL}
 \end{array}$$

In these formulations, the typical base factors are such things as FTE students taught (with distinctions made for different course levels and disciplines), head-count students served, size of the physical plant to be maintained, and so on. Formulas do create incentives for growth, although not always in ways considered desirable or important in the broader context of state priorities. For example, as typically constructed, formulas create incentives for increased course enrollments rather than course completions and for expansion of a physical plant rather than for its efficient utilization. Because the weighting factors (the \$/unit of instructional activity) are usually derived from historical data rather than established as intentional policy levers, formulas can unwittingly create incentives that yield unintended consequences: for example, mission creep or program proliferation prompted by an interest in teaching courses that are more richly rewarded in the formula (usually graduate rather

than undergraduate courses in the same field). There are ways to make formulas much more intentional and related to state priorities (for example, by rewarding course completion rather than course enrollment and by establishing weighting factors as a matter of policy, not history), but this would require a substantial deviation from common practice.

There is also a set of policies focused on students—tuition and student financial aid/fee waiver policies—that are intended specifically to yield the revenues necessary to provide an adequate level of funding for the state's public system of higher education. Among the decisions in this arena are:

- ▶ **Base institutional tuition for undergraduate students.** Since the very large proportion of public institution operating funds comes from state appropriations and tuition, revenue required from tuition often—intentionally or otherwise—is derived as:

$$\text{institutional requirement} - \text{state appropriation} = \text{required tuition revenue}$$

Tuition most likely is to be a derivative of appropriations when they are changing significantly. When appropriations have risen sharply, tuition level often are stabilized and, in some cases, reduced (the experience of Virginia and California in the mid-1990s is illustrative). When appropriations are sharply curtailed, tuition increases are the norm. The fact is that states (and institutions) "back into" tuition policy as a derivative of decisions about levels of state appropriations.

- ▶ **Mandatory fees.** Fees represent an additional source of revenues from students, the distinction being that the proceeds from fees are typically set aside for specified uses. Thus, fees become designated or restricted forms of tuition, whereas base tuition is typically unrestricted. Regardless of designation, the distinction is lost on the student; it all looks the same to the individual paying the bill. From the institutional point of view, these resources are essentially fungible. Use of restricted fees for the designated purpose often frees up resources to be allocated elsewhere. As a result, it is useful to think of fees as an additional form of tuition rather than as something separate.

- ▶ **Out-of-state tuition.** There are many instances in which institutions are deemed particularly attractive by out-of-state students. In such circumstances, institutions are in a position to charge what the market will bear. This creates conditions in which tuition revenues from out-of-state students can be considerably increased with no associated additional costs of instruction.
- ▶ **Differential tuition.** In this arrangement, institutions charge higher rates of tuition for enrollees in selected programs. This strategy works only when there is more demand for these programs than can be met. This, too, is a form of charging (up to) what the market will bear, allowing institutions to increase revenues with no additional costs of instruction. Within limits, this is often viewed positively by legislators and governors as well since these tuition revenues can offset requirements for additional taxpayer support.

■ Scholarships and waivers. There is a class of aid that is allocated on the basis of neither need nor special talent. Such aid is a discount to tuition, utilized only to boost net tuition revenues to the institution. A frequent application is to reduce out-of-state tuition to students living just across a nearby state line—effectively treating local students who happen to live across the border as in-state students.

All of the above are variables that can be adjusted in an attempt to increase the level of revenues flowing to institutions. There can be unintended consequences to these decisions, however, particularly as these decisions affect affordability of education to citizens of the state. In judging affordability, the determining factor is price of attendance (tuition plus other costs of attendance less scholarships and waivers) relative to ability to pay. Note that tuition levels, by themselves, are only one piece of the puzzle. Low tuition does not necessarily equate to affordability; the associated costs of attendance may push the overall price beyond some students' ability to pay. Similarly, high tuition does not preclude affordable education, but a good financial aid program is required in order to bridge the gap for some students.

It can be argued that high price of attendance discourages access. This is especially true among first-generation or low-income families, who are often averse to borrowing to pay for a college education. As an alternative, they work more, thus lowering their chances of successfully completing college. Low prices of attendance can improve participation by removing the economic barriers to college attendance. Economists might argue that cheap education has a potential downside—it can

remove some of the incentive for timely completion of courses and degrees. If a low price of attendance translates into low net tuition revenues for institutions, it creates conditions under which colleges or universities either become overly dependent on the state as a source of revenue—and become particularly susceptible to the vicissitudes of the economic health of state government—or have inadequate resources.

The question of price of attendance becomes even more complicated when differential tuition rates come into play. Without the safety net of student aid, this strategy can limit programmatic access for low-income students. States employ the concept of differential tuition on a systemwide basis—frequently acting to minimize the price of attendance at the lowest cost institutions (frequently community colleges) while allowing the price of attendance at higher cost institutions to rise. Depending on enrollment patterns, this can moderate student aid costs statewide.

Funding for Capacity Utilization

While most attention has been given to funding for capacity building—primarily on direct appropriations to institutions—some states have taken steps designed to influence the use of this capacity in pursuit of key state goals. In this arena, student-oriented funding tends to be a larger piece of the action than institution-oriented funding, although the institutional component tends to have a clearer focus. The institutional component takes the form of performance funding: payment to institutions that is conditional on their achieving (or making demonstrable contributions to) identified state priorities. Such mechanisms can be tailored to

specific priorities, for example, by rewarding institutions that:

- ▶ Recruit and enroll students from underrepresented groups (as defined by race, socioeconomic status, geographic origin, and so forth).
- ▶ Improve retention and graduation rates.
- ▶ Respond effectively to workforce development needs of in-state employers.
- ▶ Partner with local schools to improve graduation rates and learning outcomes of the K-12 system.

Theoretically, the design is straightforward. However, performance funding has yet to prove to be fully effective. This is often due, in part, to the poor specification of the objective to be pursued, as well as a weak understanding of its underlying rationale. It is also a function of the very limited resources typically allocated on this basis. The capacity-building/base-funding component is so large that it swamps the performance component. All institutional energy gets focused on maximizing base-funding revenues; if they do well there, the performance component is of little consequence.

The student-focused counterpart to performance funding is student financial aid of various forms. State student aid programs are typically dichotomized as either need-based or merit-based. It is perhaps more useful to treat them both as forms of aid designed to achieve particular—but different—objectives. So-called need-based aid is designed to ensure that students are not denied access because of their financial circumstances. The objective is to ensure that the poor as well as the wealthy can

(and do) gain access to the state's public colleges and universities.

So-called merit-based student financial aid is a smaller—but much more rapidly growing—component of state funding for higher education. It is also a very popular component. Historically, it has been used to attract students having particular talents—in athletics, music, or other pursuits of particular importance to the state and/or institution. However, this component can be tailored in many different ways to address specific needs. One construct provides loan support to students in specific fields of study that are forgiven if graduates practice their profession in the state for a specified period of time. The much more prevalent version features programs modeled after the Georgia HOPE scholarship program in which students are rewarded for good academic performance in high school and maintenance of that level of performance in college (typically a B average). Their political popularity may in fact be justified; they may create incentives for improved academic performance in high school and remove psychological barriers to college attendance among students who previously considered college out of the question. Depending on the specifics, however, they may also:

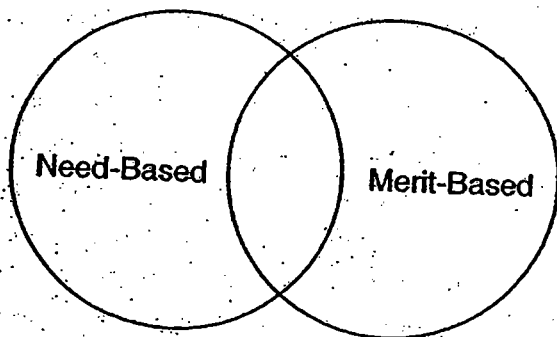
- ▶ Go to students who would have attended college anyway.
- ▶ Reduce the price of attendance for students who can afford full price.
- ▶ Keep students in-state who would normally have attended an out-of-state institution. This is directly beneficial to the state only if these students remain in-state after

graduation. It may be indirectly beneficial if excellence in the student body enhances the quality of the state's educational enterprise.

- ▲ Create conditions under which institutions can freely raise tuition.

In short, these programs are probably more effective in altering patterns of attendance than changing overall *rates* of attendance. They also serve to shift costs from students and parents to taxpayers. Even if they do not have these negatives, they should not be viewed as a *replacement* for need-based aid. Just as performance-based funding is an adjunct to core institutional funding, so is merit-based aid an adjunct to aid directed at ensuring affordability. It is probably best to think of these two different types of aid as illustrated in Figure 4.

Figure 4. Relationship between "Need-Based" and "Merit-Based" Aid



This diagram indicates that typical need-based programs also apply to a subset of students who have a sought-after academic record or other talent and some merit-based aid goes to students who have real financial need. The design objective should probably be to achieve greater overlap—for example, by combining need- and merit-based factors.

Before leaving this section, it is important to quickly note the impact of institutional aid. First,

it is predominantly merit-based aid. McPherson and Shapiro argue that, even when advertised as need-based, it has become increasingly merit-focused within the need-based component.³ Thus, it may reshape attendance patterns across institutions, but is unlikely to substantially improve either participation or affordability. The exception is for those students who are both uniquely talented *and* poor. Some students, but seldom the majority, fall into this category. A larger problem is that such funds reallocate resources *within* a single institution rather than across institutions. It is likely that the largest, richest institutions also have the highest proportion of students who need no financial assistance while the poorest students attend institutions with the least capacity to provide institutional aid. Delegating the state responsibility for assuring affordability to the collective actions of individual institutions does not yield the same result as a statewide student assistance program.

When all is said and done, the requirement is not to choose one component of policy and ignore all others; rather the requirement is for policy alignment and integration. Only one piece needs to be out of sync to jeopardize the whole framework. If financial aid is too generous, it lends encouragement to unnecessarily large increases in price of attendance (tuition). If too limited or too focused on "merit," it can make participation unrealistic for low-income students. If tuition is too low, the state can leave federal money on the table—and without some form of need-based aid may still not ensure that overall price of attendance is affordable. Finally, unless the combination of appropriations and net tuition revenues is sufficient to generate adequate levels of institutional funding, students may be provided access to an inferior education.

Aligning Financing Policies with State Objectives

In the previous section, various approaches to funding were discussed along with the kinds of behaviors that these different approaches typically elicit. This section starts with the objectives to be achieved and describes financing policies that are consistent with these ends. The listing of state objectives is the same as that enumerated in the introduction.

High School Completion:

High Rates for Students Who Have Taken an Academically Rigorous Curriculum

Achievement of this objective is pursued almost entirely through measures associated with capacity utilization components of financing policy. As a consequence, there is an underlying expectation that basic capacity exists. As examples of ways in which performance funds could be allocated in support of this objective:

- ▶ Institutions could be rewarded for increasing dual enrollments and increasing the numbers of high school students in a "responsibility area" who successfully complete an advanced academic curriculum.
- ▶ Regional P-16 councils could be rewarded for the collective efforts of K-12 schools and colleges when an increasing proportion of students in the region are taught by teachers certified in the field; complete an academically rigorous curriculum; graduate from high school; or enter college.

Note that in this case, incentives have to be provided to an entity other than a higher education institution, since colleges acting unilaterally cannot have a significant effect on these outcomes. Only in partnership with K-12

schools can they impact this set of desired outcomes.

College Participation:

High Levels for Recent High School Graduates and Adult Learners

The strategies for accomplishing this objective are more complex and involve both capacity-building and capacity-utilization components of financing policy. Key elements of the strategy include the following.

- ▶ Ensure that there is sufficient capacity to accommodate the desired levels of demand through state appropriations and tuition revenue. The nature of this capacity needs considerable deliberation, as it may consist of the creation of learning centers and distance delivery capacity in addition to (or in place of) enhancing capacity at existing institutions. The obvious point is that participation rates cannot be improved if access is denied for lack of either basic capacity or appropriate capacity (that is, the excess capacity is in the wrong place or of the wrong kind). It should be noted that capacity can be expanded by contracting (or making other financial arrangements) with either independent or out-of-state institutions to provide access to students who would otherwise be denied. Arrangements that are intentional and developed as a matter of state policy—such as the student exchange programs operated by WICHE and other regional compacts—can be very cost-effective, particularly in episodic or exceptional demand cycles.
- ▶ Ensure affordability is maintained for low-income students via a combination of tuition and financial aid policies. Financial aid for part-time students must be a consideration

improving participation of adult learners is a consideration. Further, if capacity is an issue, financial aid for students attending private institutions should be considered.

- ▶ Align performance funding with this objective. There are variations on this theme. For example, institutions can be rewarded for increasing: the number of students from underrepresented groups (race, SES, county of origin) enrolled; or the level of contract education services provided to employers.

- ▶ Create features in the base funding component that give institutions incentives to enroll underrepresented groups. If base-plus funding is the mechanism, the enrollment growth numbers can be adjusted by weighting additional enrollment of some kinds of students more heavily than others. The same idea can be applied in formula funding states.

High Rates of Retention and Degree Completion

There is a wide range of potential tools that can be employed to encourage both students and institutions to put a higher priority on degree completion. They cut across all quadrants of the diagram in Figure 2. Among the elements are:

- ▶ Ensuring that limited capacity is not a barrier to successful progress. At the institutional level, this means, for example, ensuring that core lower-division courses have enough sections so that no students are turned away. At the system level, it means ensuring that there are sufficient slots in four-year institutions to accommodate community college transfers as well as native freshmen.

- ▶ Ensuring that affordability is maintained and that net price of attendance does not create an economic barrier to continued enrollment.

- ▶ Creating incentives for institutional attention to this objective, in several forms. Performance funds can be allocated to institutions that improve (or maintain high) retention and graduation rates. A more radical possibility is to count only course completions rather than course enrollments in calculating base funding for institutions—an idea nowhere embraced in the U.S., but in practice in the U.K. It must also be recognized that this is not necessarily the answer; high course completion rates may not translate into similarly high rates of program completion.

- ▶ Creating incentives for completion focused on students as well as on institutions. Performance requirements can be built into all forms of student aid, including need-based aid. As an alternative, institutional performance funding programs can be designed in such a way that funds are shared by institution and students (for example, students who enter as “at-risk” students receive a cash rebate at time of program completion).

There are many ways to configure finance policy in this arena. The necessity is that the objective be clear and that the incentives in the various mechanisms be consistent and lead in the intended direction.

Educational Attainment and Employability: Economy Employs High Proportion of College Grads With High Levels of Education Attainment

In many ways this objective depends more on finance policy as it aligns with economic development than with higher education.

Educational institutions can accomplish the prior three goals in states that have economies incapable of absorbing the graduate. The result is a mass out-migration of highly educated citizens. In this environment, the challenge to higher education is to effect steps designed to diversify and expand the economy of the state. In some cases this may be a capacity question—do the institutions have the wherewithal to provide entrepreneurship programs or to compete for research funding that has the potential for economic development spin-offs?

In more cases, such benefits are prompted through performance funding mechanisms of various kinds. As an example, institutions can be rewarded for:

- ▶ Increased employment in spin-off companies.
- ▶ Increased levels of business and industry training.
- ▶ Increasing graduates of selected fields who remain in the state for at least "x" years.

A more direct incentive is to allocate a fixed percent of state revenues (or revenues from a particular source) to higher education. This provides a direct link between an improved economy and benefits to higher education.

Affordability

The notion of affordability has run through all the prior discussions. It is not an end unto itself,

but it is a linchpin to the real ends that the state deems most important. The other objectives are unlikely to be achieved if substantial portions of the state's population cannot afford to go to college. The available options and some comments about each are listed below.

- ▶ **Low prices of attendance.** This avenue places a substantial burden on taxpayers and subsidizes the high proportion of students who could afford to pay more. It removes the economic barrier to access. At the same time, it provides no impetus to high performance and timely completion.
- ▶ **Need-based financial aid.** Need-based grants improve affordability for low-income students. As a consequence they remove economic barriers to participation. Their presence allows institutions to raise the price of attendance. This is not necessarily bad; the result may be an increase in net tuition revenue that assures availability of needed capacity without a diminution of affordability. Without special design features, typical need based programs provide no incentives for high performance, retention, or completion.
- ▶ **Merit-based student financial aid.** As noted earlier in the paper, broad-brush merit aid programs typically channel resources to students who do not have financial need. They are devices for channeling students to particular (types of) institutions rather than enhancing participation by students who otherwise would not attend. Their provisions can create incentives for higher performance since they usually require maintenance of a B average for continuation. This feature, however, may discourage students from some of the more challenging academic pur-

This approach, if widespread, can encourage institutions to raise tuition, a particularly unfortunate consequence if need-based aid is inadequate to maintain an affordable price of attendance for students who do not qualify for merit aid.

Also as noted earlier in the paper, it is possible to narrowly tailor such programs to achieve particular manpower development and employment objectives. Such narrowly construed problems seldom require heavy financial investments and do not provide a substantial impetus to increased tuition levels. As a consequence, the negative implications for need-based programs are smaller.

▲ **Loans.** Loans are an alternative form of self-help rather than a form of aid. If loans are used as a replacement for work—at least work beyond 15–20 hours a week, the level at which work becomes an obstacle to successful retention and completion—they may be a positive factor. Because most students who drop out do so early in their college careers, reliance on loans at that stage may be problematic; it may create conditions in which there is a high likelihood that they will acquire debt but not a degree—the worst of all circumstances. Loans make more sense in an academic context if they are used to fund students' participation after they have developed a successful academic track record.

There is much conventional wisdom, but not a lot of research, that indicates that the necessity to rely on loans dissuades participation of some groups, particularly low-income students and students of certain cultures. If the alternative is increased self-

help through work, the ultimate state objective of retention, completion, and entrance into high-end employment is unlikely to be achieved.

▲ **Work-study.** Work-study is the largely forgotten form of financial aid. Like loans, it is a form of self-help rather than true aid. However, it can be an important "performance enhancer" if it serves to focus work time on meaningful, academically related tasks rather than unrelated tasks. Ways of linking work-study funding to more meaningful jobs inside the institutions and in places of employment where students can engage in internships and other forms of work related to their academic fields is an avenue that deserves much more attention than it has heretofore received.

Conclusions

This paper has outlined the broad array of financing options—both institution focused and student focused—available to states. Hopefully, it has led the reader to the conclusion that there is no single right answer. Design of funding policy depends in a very substantial way on a state's circumstances and its agenda for change and improvement. But generic rules hold. Cost-effective policy requires:

- ▲ Clear understanding of priorities to be pursued.
- ▲ Creation and maintenance of the capacity that allows pursuit of these goals.
- ▲ Careful alignment of funding policies dealing with appropriations for institutional support, tuition, and appropriations for student financial aid (recognizing the involvement of both the federal government and institutions in the latter).

Only if these policies are structured in such a way that they are mutually reinforcing around a common objective (or related set of objectives) will their full benefits be realized.

Endnotes

1. Kenneth P. Mortimer, "The Governance Context for State Policies on Appropriations, Tuition, and Financial Aid," *Policies in Sync: Appropriations, Tuition, and Financial Aid for Higher Education* (Boulder, CO: Western Interstate Commission for Higher Education, 2003).
2. Institute for Higher Education Policy, *Accounting for State Student Aid: How State Policy and Student Aid Connect* (Washington, DC: IHEP, 2003), 2.
3. Michael S. McPherson and Morton Owen Schapiro, "The Blurring Line Between Merit and Need in Financial Aid," *Change*, May/April (2002).

Dennis Jones is president of the National Center for Higher Education Management Systems (NCHEMS). A member of the staff since 1969, Dennis is widely recognized for his work in such areas as state and institutional approaches to budgeting and resource allocation, strategic planning, educational needs assessment, faculty workload and productivity, information for strategic decision-making, and the development of educational indicators. Dennis has written many monographs and articles on these topics, has presented his work at many regional, national, and international conferences, and has consulted with hundreds of institutions and state higher education agencies on management issues of all kinds. Prior to joining NCHEMS, Dennis served as an administrator (in business and in institutional planning) at Rensselaer Polytechnic Institute. He received his graduate and undergraduate degree from that institution in the field of engineering management.